



## SME Environmental Behaviour

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### 1. INTRODUCTION

Driven by growing environmental awareness, increased scientific knowledge, stakeholder pressure, and legislation, businesses (either willingly or unwillingly) are increasingly coming into contact with environmental issues. New Zealand holds an enviable reputation worldwide as being a 'clean, green' country. This reputation is leveraged to its full extent by many businesses and the government to promote New Zealand products and services. Posters proclaiming New Zealand's '100% pure' environment adorn the walls of New Zealand embassies and other cultural outposts throughout the world.

While New Zealand relies heavily on its environmental reputation, prior studies show that the environmental performance of New Zealand businesses is, in the most part, lacking. Additionally, past research has tended to focus on the largest companies in each sector with little information available on the environmental behaviour of New Zealand Small and Medium-Sized Enterprises (SMEs).

For investigations into the environmental practices of SMEs, the manufacturing sector is of considerable interest due to its close relationship with energy use and pollution. This article is based on a dissertation completed as part of the Master of Environmental Policy Degree at Lincoln University, focusing on how New Zealand manufacturers view the environment, what they are doing to address environmental issues, and the rationale behind their environmental action or lack thereof. Within the context of environmental behaviour, this article will provide a quick glimpse at what New Zealand manufacturers do, what they don't do, and why. Finally, some attention will be

given to some possible avenues for advancing SME environmental behaviour.

### 2. GLOBAL CONTEXT FOR THE ENVIRONMENTAL PERFORMANCE OF SMES

SMEs are widely seen as having a significant environmental impact. It has been estimated that SMEs may contribute up to 70 percent of industrial pollution (Hillary, 2004). While SMEs tend to lag behind larger businesses in adopting environmental practices, it has been argued that the smallness of SMEs helps them to account more accurately for the value of scarce resources, and to therefore use as little as possible (Kerr, 2006). Multiple studies have shown that for SMEs, regulation is the key driver of environmental performance and there is little value created in pursuing environmental goals (Merrit, 1998; Petts, 2000; Simpson, Taylor, & Barker, 2004; Williamson, Lynch-Wood, & Ramsay, 2006). Whereas larger firms are able to create value from an environmental reputation, according to the limited amount of research on the subject, this does not apply equally to SMEs (Graafland & Smid, 2004). Regulation therefore is put forward in the literature as the key driving force behind SME's environmental performance (Tilley, 1999).

### 3. METHODOLOGY

The research used an email survey to gather quantitative and qualitative data from a wide range of New Zealand SME manufacturers. The survey contained three sections based on the three research questions. The first section addressed the views of SME manufacturers on what environmental issues are important to them

and how environmental issues are best approached from their businesses' perspective. The second section addressed the environmental actions of SME manufacturers and their level of commitment to future environmental actions. And the third section addressed the drivers influencing SME manufacturers' environmental actions or lack of actions and their attitudes towards compulsory environmental regulatory compliance and voluntary environmental action. To implement the survey, three business directory databases (*Finda*, *YellowPages*, and *Kompass*) were used to identify potential respondents. To maximise the response rate, all business identified as manufacturers in the databases were sent a survey invite. The response rate from each of the three databases differed to a large degree, with *Finda* providing the majority of responses. A total of 36 responses were received which provided a good base on which to conduct the research. Approximately 2000 survey invites were sent which equates to a response rate of 1.6 percent. However, response rates differed greatly across the three databases used with *Kompass* providing a response rate of 0.1 percent, *YellowPages* 0.3 – 0.4 percent, and *Finda* 12.8 – 13.2 percent. The response rates obtained by the survey were not unexpected within the context of the research topic and methodology, and conformed to other similar surveys conducted, and general research on response rates from email surveys. The completed surveys were analysed using the qualitative method of summative content analysis.

#### 4. NEW ZEALAND SME MANUFACTURERS

The research reflected what would be expected of any business focusing primarily on the bottom line, and short-term profits. That is, New Zealand SME manufacturers view environmental issues that have a financial impact or a regulatory component to be more important than other environmental issues. The more an environmental issue costs a business financially (i.e. energy consumption), the more attention it will receive. Environmental impacts are seen therefore, as an expense, and undertaking environmental actions as a cost to the business. Environmental issues are generally addressed for their potential to impact on the business financially, rather than for any intrinsic environmental concern. The findings

suggest that increasing regulation and increasing the financial impact on businesses that create an environmental impact would lead to businesses viewing an environmental impact as more important. However, this is a narrow approach that disregards possible benefits to businesses from undertaking environmental actions.

While SMEs are aware of environmental issues, they are unlikely to voluntarily go beyond regulatory compliance to address their environmental impact (see Battisti & Perry, 2011; Tilley, 1999). The reason for this appears to be that SMEs either consider it too difficult, or do not consider the possibility of making a business case for pursuing environmental actions. While there are several examples of large companies that have leveraged their environmental performance to improve the businesses performance (Dell Computers, Unilever, Patagonia, Wal-Mart, Maersk etc.), this approach does not seem to be considered equally applicable to SMEs.

The research found widespread recognition from the businesses surveyed that they had an environmental impact; with 59 percent of the businesses stating their environmental impact was at least 'somewhat significant'. While this finding at first appears hopeful, in contrast with a previous study undertaken by Victoria University (1994), the majority of businesses surveyed by the research did not plan to undertake higher degrees of environmental action in the future. Additional comments provided by the businesses surveyed reflected a certain melancholy towards the perceived immensity of environmental issues.

The research found there was widespread recognition of the importance of maintaining New Zealand's positive environmental reputation. This recognition however, was not found to have a large influence on the environmental behaviour of New Zealand SME manufacturers. A common sentiment expressed by the respondents when asked whether they would voluntarily pursue environmental actions was, 'what's in it for me?' This sentiment does not align well with the businesses views on the importance of New Zealand's environmental reputation but does help to provide a better understanding of what is needed to improve the environmental behaviour of SME manufacturers.

The research revealed several contradictory beliefs held by businesses. Another example is

that while respondents did not believe that in the absence of regulation, businesses would naturally adopt voluntary environmental behaviours, they themselves stated that they undertook voluntary environmental actions.

Environmental regulations as well as the financial impact of environmental issues were found by the research to be the major drivers of environmental action in New Zealand SME manufacturers. Regulations and financial cost have a larger effect on the environmental views, actions and drivers of environmental behaviour in New Zealand SME manufacturers than all other aspects (e.g. an intrinsic concern for the environment, an ability to benefit financially from taking environmental action, a desire to gain societal legitimacy, external pressure to be environmental from stakeholders or customers, amongst others).

However, while the most blatant conclusion that could be drawn is that the best path forward for mitigating the impact of businesses on the environment is through increased regulation and increasing the cost of poor environmental performance, this approach further reinforces the perception of environmental wellbeing as strictly an expense for businesses. That is not to say that regulation does not play an important role, but rather that there is a potential upside to business environmental performance that is not well understood.

Throughout the research and review of the literature conducted, there was a noticeable lack of any mention, critical or otherwise, of the potential to build a business case for environmental performance (beyond efficiency savings). What research does exist on this topic tends to focus on large corporations, with SME targeted information generally limited to online articles. New Zealand SME manufacturers have a good understanding of their environmental impacts, a fair understanding of environmental regulations, but either little understanding or little trust in the potential to benefit from environmental actions. Presenting a business case for better environmental performance in SMEs requires moving beyond a focus on efficiency savings, and focusing instead on the opportunities presented by sustainability.

## **5. PATH FORWARD – DEMONSTRATING THE BENEFITS OF BETTER ENVIRONMENTAL PERFORMANCE.**

This article has intentionally avoided the use of the word sustainability so far, solely because the research conducted by the author focused on environmental and economic matters, and did not address any social components of the businesses actions. However, a robust approach to building a business case for ensuring environmental wellbeing while achieving positive business outcomes relies on all aspects of sustainability being considered. The remainder of this article moves beyond the dissertation research conducted by the author, and looks at the potential to create win-win situations for business and environment. Opportunities to improve a businesses' financial performance while at the same time meeting sustainability outcomes require a certain willingness on the behalf of businesses to move beyond the status quo of day-to-day operations. While this is not an easy undertaking for small businesses focused on the bottom line, there are multiple studies (some of which are discussed below) available that demonstrate the benefits of business in doing so. As a few large corporations have discovered, social responsibility is good for business. In his book 'Conscious Capitalism', Whole Foods Market Founder John Mackey states that over a 15 year period, businesses that have a social mission perform 10.5 – 1 over their competitors. Tying purchasing decisions to feelings of positivity has been at the core of marketing for a long time. A worldwide study conducted by Nielsen (2014) found that on average, consumers are willing to pay 20% more for a brand that had a social mission, over a competing brand. Other interesting findings from this study on consumer behaviour include:

- 55% will pay extra for products and services from companies committed to positive social and environmental impact
- 52% made at least one purchase in the past six months from one or more socially responsible companies
- 52% check product packaging to ensure sustainable impact

- 49% volunteer and/or donate to organizations engaged in social and environmental programs

It is clear from these findings that there is a reasonably significant demand from consumers for sustainability and socially responsible businesses, however there is another important aspect to building a business case for sustainability that gets even less attention than consumer demand. The Nielsen study also found that 67% of people prefer to work for socially responsible companies. It is a common sentiment that staff are a business's most valuable commodity, it therefore stands to reason that attracting and retaining top talent should be a central tenant of any business. A study undertaken by Deloitte (Deloitte 2014) found that 70% of Millennials were willing to take less compensation to work for a business that is socially responsible. A further study undertaken by (UNC Kenan-Flagler Business School (Schauffebuel 2013) found that employees that are engaged in the businesses purpose are 87% less likely to leave. The findings of these surveys primarily support sustainable practices as a means for creating value for a business, rather than as a growth strategy, however the benefits to a business financially from taking this approach are no less valid than focusing on growth alone.

## 6. CONCLUSION

The field of SME sustainability studies is disproportionately small in comparison to the amount of attention given to large corporations. As SMEs potentially make up to 95% of all businesses globally (OECD, 2005). There are obvious benefits in working to promote an environmental agenda in these businesses. The well-understood benefits of undertaking environmental behaviours for SMEs tend to be limited to efficiency savings, with little regard given to the ability to grow a business through a focus on sustainability and social responsibility. The benefits of taking this approach are readily apparent in many large corporations, however there is a perception that these opportunities for growth do not apply equally to SMEs. As none of the studies on SME environmental behaviour that the author is aware of have tested the validity of this proposition, there is the potential for SMEs to obtain the same benefits as larger corporations

from pursuing a sustainability objective. To test this proposition, case studies are currently being undertaken by the author with support from a small group of environmental professionals, academics, and business people, to measure the impact on SMEs from actively pursuing a sustainability agenda. The focus of these case studies is on investigating the potential for a business case for sustainability to be made for SMEs that currently have little to no focus on sustainability. In the words of eco design guru William McDonough, author of *Cradle to Cradle: Remaking the Way We Make Things*, the focus of business needs to move away from doing 'less bad' to doing 'more good'. The case studies being undertaken will investigate whether doing 'more good' for the environment can also do 'more good' in terms of value creation for the business. The hope is that by focusing on generating value for the business by operating in a more sustainable manner, it will be possible for a SME to create a win-win scenario for both the environment and the business.

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